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SIPDIS

SENSITIVE

State pass to USTR Elena Bryan
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SUBJECT: AMERICAN BUSINESS REPS IN HO CHI MINH CITY LOVE BTA, HATE
U.S. ANTIDUMPING AND QUOTAS

Summary and Introduction

¶1. (SBU) During his visit to Ho Chi Minh City on February 17-18, Staff Director for the Senate Appropriations Committee James Morhard met a group of American businesspeople resident in Ho Chi Minh City. They reviewed their challenges and successes here in Vietnam and raised concerns about the future of the U.S.-Vietnam trade relationship. They argued that anti-dumping cases for frozen fish fillets and now shrimp, as well as textile quotas, were limiting Vietnam's growth. This growth, they said, is crucial to the success of their businesses here. They also expressed concern about potential Vietnamese disenchantment with the U.S., if ordinary Vietnamese citizens continue to feel the level playing field disappears as soon as they are successful in penetrating the U.S. market.

American Businessmen "Quite Concerned"

¶2. (SBU) An American banker who for the last 5 years has run the operations of a large non-American bank in Vietnam stated he was "quite concerned" about the U.S. -Vietnam relationship. He characterized the decision of Vietnam's leadership to participate in the world economy as "fragile." This fragility is aggravated by U.S. actions that limit Vietnam's economic growth, he said. The U.S. is Vietnam's biggest customer, and one of its largest trading partners, but GVN leadership has "egg on its face" as it has to deal with textile quotas and antidumping cases on frozen fish fillets and now shrimp. This banker stated that many in the leadership were "trying to do the right thing" in opening up the country and the economy, but that it would not happen without help from the U.S. He also stressed that trade and investment would aid Vietnam in its reform process and cultivate a possible, valuable U.S. ally for the future.

¶3. (SBU) Another American businessman, who has been in Vietnam for more than 10 years and has held several leadership roles in the expatriate business community here, took the argument further. He claimed the U.S. had led Vietnam "down the garden path." After promoting the benefits of opening up the economy and trading with the United States, he was disappointed that Vietnam had been "ambushed" by U.S. efforts to limit trade in the areas with the greatest potential growth in the U.S. market - seafood and textiles. He felt that these disputes helped sour the atmosphere when U.S. firms such as his own applied for licenses in Vietnam. He and others were also concerned that ordinary Vietnamese would become disenchanted with the U.S. if they continue to feel their successes in the U.S. marketplace will be countered with unfair treatment and an end to the level playing field they were told they could expect.

Now the Good News

¶4. (U) Along with the dark clouds, the businessmen spoke of the opportunities and progress that they had seen. One businessman described the local economy in glowing terms, stating that ordinary Vietnamese were optimistic and happy because they saw the dramatic and sustained economic growth over the last few years as translating into a bright future for their children. He added that the last six months had seen substantially greater economic activity -- primarily in HCMC -- than any period during his entire tenure here. Others agreed. When asked by Mr. Morhard, the businessmen were very complimentary about the support they had received from the Ambassador and the Consulate General as a whole.

¶5. (U) Much of this growth in the last couple of years was attributed to direct trade benefits from the Bilateral Trade Agreement (BTA), as well as to the indirect benefits of the improving trade and investment climate that the BTA commitments foster. One speaker noted that American firms in Ho Chi Minh City were engaged in "real business," unlike some of the businesses in neighboring countries, which he characterized as "getting between foreign aid dollars and their local recipients."

Nike Likes Vietnam

¶6. (SBU) The two Nike representatives spoke very positively of their experience with Vietnam. Nike has, via its contract factories, a major presence here. The company indirectly employs about 75,000 workers in 7 contract footwear factories that produce

exclusively for Nike. The company estimates that it is also responsible for an additional 20,000 employees -- if outside suppliers to the footwear factories are also included. Nike considers Vietnam a "learning country," which means it is devoting considerable resources to develop further sourcing here.

According to Nike, Vietnam has made extraordinary progress quickly, and can now manufacture high-end shoes that still cannot be produced in other countries in the region where Nike has had a longer-term presence. The company is moving toward lean manufacturing and is working to add skills to its workforce, which is 80 percent female and sees a turnover of 25-30 percent per year.

¶17. (SBU) Last year the company also sourced 1.5 million pieces of apparel in Vietnam, with 50 percent going to the U.S. The Nike reps noted that U.S. textile quotas were playing havoc on its apparel sourcing in Vietnam. Although Nike plans to continue to develop footwear production here, apparel production is in more flux depending on whether or not Nike contract factories can get the quota they need to guarantee the order. Next year it will be much easier to source from other countries where quota will not be an issue. Nike reps called the possibility of U.S. quota reductions, even if small, "a major disruption" to the apparel business in Vietnam.

So How Do You Define Corruption?

¶18. (SBU) All executives acknowledged that corruption was a problem in Vietnam, although some claimed it was not as bad as in other countries in the region. The group noted corruption in Vietnam tends to take the form of many small demands rather than a need to pay a few very large "gifts." Corruption manifests itself in different ways in different sectors of the economy. Unocal noted, for example, that PetroVietnam was not only their regulator, but also their partner and service provider. This created tremendous conflicts of interest that the company had to deal with. On the other hand, the banker stated that his regulator, the State Bank of Vietnam, was not corrupt. All five businessmen confirmed it is common practice here for money to change hands, but noted that they did not do it. Ultimately, this means everything takes longer to accomplish with the GVN. However, they agreed it is better not to pay, since "once you give in, it's over" and you would be hounded repeatedly for money. One businessman called it "death by a thousand paper cuts." At the same time, he stated that he had containers stuck in port that would be cleared quickly if only he was willing to pay a bribe.

¶19. (SBU) Several of the businessmen asserted that corruption was not as serious in Vietnam as it was in Indonesia where a few of them had also worked. Compared to Indonesia, said one businessman, corruption in Vietnam was "fragmented and petty" and not as well organized. One person stated that we should not confuse corruption with bureaucratic sloth and inefficiency, although the situation is improving.

Unocal's Success Depends on Vietnam's Economic Growth

¶10. (SBU) The director of Unocal's operation in Vietnam described their production-sharing contract for exploiting offshore gas in Vietnam waters in the Gulf of Thailand as a longterm investment still in its early stages. He described Unocal's dealings as more difficult here than with Thailand where they operate under a concession arrangement. The gas from the Unocal project will be sold to the Vietnamese domestic market. For the project to be economically viable in the long term, Unocal is counting on strong economic growth to drive domestic demand for power. Lately, he said, domestic power consumption has been increasing at 17 percent per year. This exceeds estimates in Unocal's business plan, which assumes 10-12 percent growth in energy demand per year over the next several years. The Unocal director stated that this demand would of course be driven by economic growth, and said the BTA had thus indirectly benefited the project. It was important for this growth to continue.

¶11. (SBU) The Unocal executive compared the business environment in Vietnam to that of China, where the firm has a small project in Shanghai. In China, strong economic growth is also driving energy demand. He felt that working in China, however, was "almost impossible for a Western company" although the country had opened -- and eased -- up over the past few years. In Vietnam, like in China, there is a big issue of trust. He stated that this ties into the negotiating mentality of his Vietnamese counterparts who still have a "win-lose mentality" as opposed to a "win-win mentality." There is currently zero level of trust, he said.

Educating HCMC Officials

¶12. (SBU) Morhard and ConGen officers also carried on a free-wheeling discussion over lunch with three mid-level political and press/cultural officers from the External Relations Office (ERO - branch office of the Ministry of Foreign Affairs for southern Vietnam). Morhard challenged his interlocutors to reconcile Vietnam's continued reliance on a communist-style political system with a growing dependence on capitalism. Much of the remainder of the candid conversation focused on the U.S. electoral system and the role of special interest groups in the political process. The

exchange gave the ERO participants an excellent opportunity to learn about the upcoming presidential election and the workings of democracy at the grassroots level.

Comment

¶13. (SBU) While open and direct with their concerns over host country problems of corruption, inefficiency, and difficult local partners, the American businesspeople who met with Mr. Morhard saved most of their worries for USG policy. They made clear the link between Vietnam's continued opening up to the world, its continued economic growth, and the success of their own businesses in Vietnam. Although critical of U.S. trade actions over the past few months, which these businessmen see as directly threatening Vietnam's economic growth and the development of the bilateral relationship, they see the BTA as vital to the dramatic economic growth and Vietnam's opening up to the world -- which is key to their own success. In spite of their worries, they are optimistic about the future here.

¶13. (U) Mr. Morhard did not have the opportunity to clear this cable before his departure.

YAMAUCHI